Kenneth Elzinga

Editor's Note: *This is an abbreviated version of RF's conversation with Kenneth Elzinga. For the full interview, go to our Web site: www.rich.frb.org/pubs/regionfocus.*

Many people think economics is boring — certainly not the stuff of which mystery novels are made. But those people probably have never heard of Henry Spearman. He is the hero of three murder mysteries written by economists Kenneth Elzinga and William Breit: *Murder at the Margin*, *The Fatal Equilibrium*, and *A Deadly Indifference*. (Actually, Elzinga and Breit published those books under the pseudonym Marshall Jevons, combining the names of two famous classical economists, Alfred Marshall and William Stanley Jevons.) Spearman — who is modeled after Milton Friedman — uses economic logic to determine who is behind the murders. The books are both fun and informative. As a reviewer for the *Wall Street Journal* remarked of *Murder at the Margin*, "if there is a more painless way to learn economic principles, scientists must have recently discovered how to implant them in ice cream."

Since 1967, Elzinga has served on the faculty of the University of Virginia, where Breit also taught from 1965 to 1983. In addition to his murder mysteries, Elzinga is well known for his work on antitrust issues and the economics of the beer industry. He is also an acclaimed instructor, having won several teaching awards at UVA, and a former president of the Southern Economic Association. Aaron Steelman interviewed Elzinga on June 7, 2004.

RF: When did you and Professor Breit become interested in using fiction as a way to convey economic ideas?

Elzinga: Bill and I were in the U.S. Virgin Islands, on the island of St. John, at a resort called Caneel Bay Plantation. We were vacationing there with my wife. At dinner we often discussed the "beach books" we had been reading. Bill was an avid reader of mystery fiction, about which I knew practically nothing, except the Hardy Boys. One night he described how the genre of mystery fiction had generated sleuths who used different methods of analysis to solve crimes.

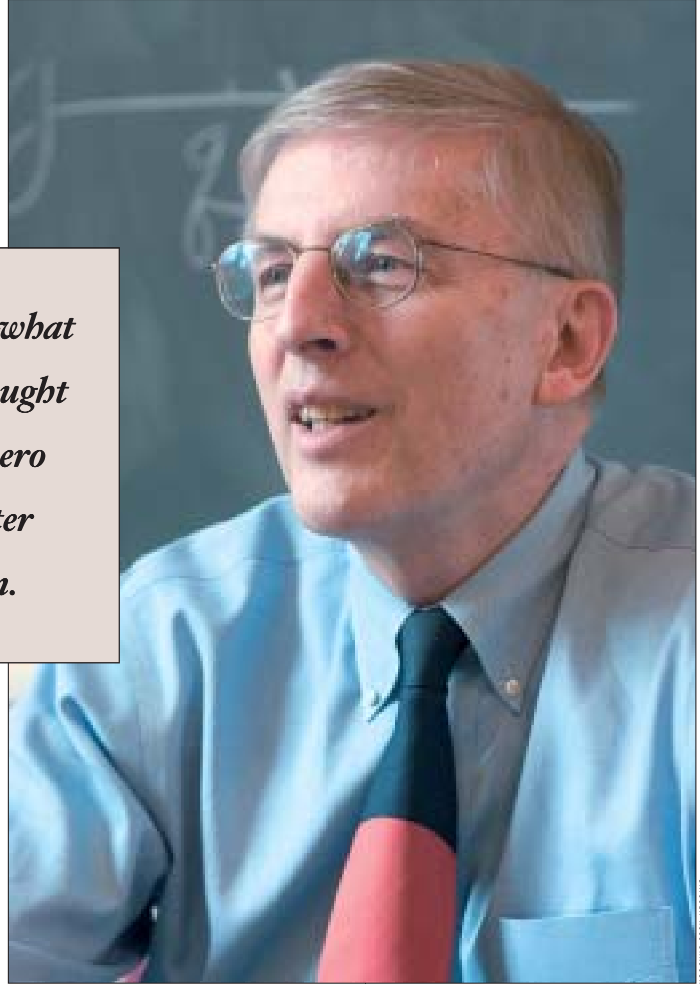
As I recall, Bill mentioned Rabbi Small's use of the Talmud and Hercule Poirot's use of psychology as examples. Then he added something that caught my attention. Bill reported that there had never been a central character in all of mystery fiction who used economic reasoning to solve the crime. I suggested to Bill that he ought to create such a character. He responded that he would do so if I agreed to work with him on the project. You have to understand that Professor Breit is an unusually creative and witty person. And he is my best friend. So without giving the matter much thought, I agreed. And we started brainstorming about a novel during that vacation.

I had no idea, at the time, what hard work I had signed on for and no idea how much enjoyment we also would get from the collaboration.

RF: I have read that the hero of your novels, Henry Spearman, is modeled loosely after Milton Friedman. Is that correct?

Elzinga: I'm not sure I would use the word "loosely." Our fictional character, Henry Spearman, is very much like the real-world Milton Friedman — certainly in appearance. But not only in appearance: Over and again, as Bill and I worked on our three books, we would ask ourselves what might Milton Friedman say in this situation. Bill knows Milton much better than I do, and Bill is a mimic. So I would literally hear what sounded like Friedman's voice coming from my pal as we pondered some idea.

Now having said that, obviously there are differences. Henry Spearman teaches at Harvard; Milton Friedman's fame as an economist was at the University of Chicago. Milton Friedman's wife Rose is herself a skilled economist. That did not work for



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us with Henry Spearman. We created a wife for Henry who does not understand economics, so she could play the Dr. Watson role.

RF: What difficulties did you encounter in finding a publisher for your first novel, *Murder at the Margin?*

Elzinga: Publishing a work of fiction is a classic chicken-and-egg problem. Once you have published a successful first novel, publishers are interested in considering your second book. You have a track record as an author. But until that first novel is out, no one seems interested.

Almost every successful author has a story of how he or she almost never got published. In our case, after being rejected by a number of publishers, a small publishing house that had brought out a couple of books by Milton Friedman and Paul Samuelson became interested because of the Milton Friedman-Henry Spearman nexus. This publisher took our manuscript for *Murder at the Margin* to Paul Samuelson at MIT and told us that if Professor Samuelson liked it, he would publish it. And so our fate hinged on what Samuelson thought of a book whose hero was patterned after Friedman.

Our first break was that Samuelson liked the manuscript. It turned out that his MIT colleague, Bob Solow, also became a fan. Another fan we have is John Nash. So we have a number of Nobel Laureates who like the exploits of Henry Spearman.

Our second big break was that the *Wall Street Journal* reviewed *Murder at the Margin* and gave it a great review. A lot of people read the *Journal* and a lot of them bought the book. Those two breaks in large part explain how we came to write *The Fatal Equilibrium* and *A Deadly Indifference*.

RF: If I may put your fiction writing in a different category, much of your academic work has focused on antitrust. How would you describe the evolution of economic thinking about antitrust over the past 30 years?

Elzinga: The biggest change is the enormous interjection of economic analysis into antitrust enforcement and policy. Every assistant attorney general heading the Antitrust Division, whether the administration is Republican or Democrat, appoints an academic economist as a deputy assistant attorney general. David Sibley of the University of Texas now serves in that capacity. For many years, the only people to hold the deputy assistant attorney general rank at the Department of Justice were attorneys. This is just one snippet of a profound change in economic influence.

Any major antitrust case today has economists involved. Cases being considered by either the Federal Trade Commission or the Antitrust Division are now always assessed by economists along with attorneys. In antitrust trials, economists now play an important testifying role.

The intellectual stimulus for much of this has its locus at the University of Chicago, where Aaron Director and others began applying economic analysis to the law, including antitrust law. There is more to the story than what was happening in Hyde Park, to be sure. But the Chicago School of Economics has had an enormous impact on the way antitrust is considered. Even critics of the Chicago School have to understand its influence to offer their critique.

RF: Aspiring monopolists are often accused of using predatory pricing to drive competitors from the market. In the case of foreign trade, the United States has tried to stop that behavior through the enforcement of anti-dumping laws. What is your view of U.S. anti-dumping laws?

Elzinga: Like most economists, I can restrain my enthusiasm for anti-dumping laws. They have little or nothing to do with genuine predatory pricing and a lot to do with rent-seeking by domestic producers of goods seeking import protection. I admire U.S. companies that face import competition and do not hire lawyers and lobbyists to protect them from foreign competition.

To win a dumping case, a domestic producer need not show that the foreign producer is engaging in predatory pricing. If that were the requirement, there would be little to fear from anti-dumping enforcement since very few, if any, foreign producers have even the remote prospect of gaining a monopoly position on sales in the United States through below-cost pricing.

In fact, the economics of predatory pricing as applied to antitrust enforcement is one of the great victories of the Chicago School. One of the most interesting antitrust cases in which I ever participated was brought by two U.S. producers of consumer electronic products that charged the bulk of the Japanese television industry with predatory pricing. I served as the economic expert for the Japanese defendant, and I had the chance to see the insides of a prominent predatory pricing case.

Anti-dumping laws have little or nothing to do with genuine predatory pricing and a lot to do with rent-seeking by domestic producers.

The case went to the Supreme Court where the majority showed their understanding of how unusual it is for predatory pricing to be a viable monopolizing strategy. The Court ruled that predatory pricing was "rarely tried and even more rarely successful." I think those are the exact words of the Court. And, of course, even with their Court victory in hand, the Japanese never monopolized the sale of television sets in the United States. I think, today, the largest seller of television sets in Japan is a Chinese firm! Meanwhile the American consumer has enjoyed a steady stream of competitive benefits in consumer electronic products.

RF: Some economists have argued that there can be no such thing as monopoly in a purely free market — that all monopolies result from grants of government privilege. What do you think of that argument?

Elzinga: That's an argument that has an important lineage in economics. Today, the argument is held and put forth most cogently by members of the Austrian School. I admire a lot about Austrian economics, and I consider it a shame that most departments of economics do not offer more opportunities for students to study Austrian economics. Moreover, I think the argument that all monopolies result from grants of government privilege teaches an important point. The point being: Markets are largely self-correcting, and that cartelization and monopolization are not easily pulled off, notwithstanding the conventional wisdom (outside of economics) to the contrary. The problem is the Austrian thesis borders on being too clever by half.

The real issue is whether the market failure of monopolies and cartels can be identified and remedied by a government agency at less cost than that inflicted by monopolies and cartels upon consumers before the monopolies or cartels are undermined by new entry or cheating or technological change.

When I teach microeconomic principles at the University of Virginia, and I come to cartel theory, I always teach about the instability of cartels because of the cheater problem. It is a powerful theory and there is much truth to it. But I had an opportunity to study the recent vitamin cartel and this cartel operated for more than 10 years, seemingly without government protection or privilege. I'm grateful that the antitrust authorities finally caught the cartel members and that antitrust penalties seek to deter such conduct by other firms.

Aside from cartels, I think if the United States did not have an antimerger law the country would go through a wave of mergers-to-monopoly. Over time, the anticompetitive effects of these mergers might dissipate through new entry. But we have a merger law that allows mergers that are efficiency-driven, and that involve an otherwise failing firm. I'm not sure why consumers should have to wait for the long run to come around when economics provides pretty good guidance of what kinds of horizontal mergers we should try to nip in the bud.

RF: You have done a good deal of research and writing on the economics of the brewing industry. What do you think of the rise of "microbrews" in recent years?

Elzinga: I have watched the rise of microbreweries with interest, going back to Mr. Fritz Maytag's pioneering efforts with Anchor Steam Beer, beginning in the mid-1960s. Microbreweries still supply only a small share of the beer market compared to the major domestic brewers and the importers. But they have added to consumer welfare by bringing new flavors and product variety to the marketplace. And in the process, a place has been made for a group of entrepreneurs to make some money (not all have) and to produce a product for which they have a passion.

Let me mention, however, that to my mind an equally important development in the American beer market has been the place at the table that import brands now have, particularly the Mexicans, and especially Corona. It would have taken a remarkable crystal ball to predict, a decade ago, that a Mexican beer would not just be a fringe supplier, but a top-10 seller.

RF: You have written on the relationship between religion and economics. Many religious people are often hostile to the market system because they believe that markets ignore issues of social justice. Why do you think such concerns are prevalent among people of faith?

Elzinga: I am not sure I have a particularly good answer to that question, but I'll hazard three reasons why so many religious people are hostile to market allocation.

First, we need to realize that many people, perhaps especially seminarians, simply do not understand what Adam Smith called "the obvious and simple system of natural liberty." They do not find the benefits of, indeed the genius of, the market system to be obvious and simple. Incidentally, many of my students at the University of Virginia are the same way.

Many people who have not had so much as one course in economics are confident of their ability to opine on economic subjects. That said, there are clergy who do understand the hidden logic of economic analysis. I admire the work of Father Robert Sirico at the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Mich. He and others are doing pioneering and important work in bringing knowledge of how markets work to clergy and seminarians.

Second, we need to acknowledge that many people do not like the spirit of enterprise that is part of the market system. There are many members of the intellectual class who admire the creativity of writing a poem or composing music. And rightly so. But many of these same people will not admire the creativity involved in coming up with a new product, a new service, or a new form of business organization. Ask yourself this question: Have you ever observed a writer in an important journal or newspaper object to the substantial earnings of an entertainer? I haven't. But the earnings of business entrepreneurs are regularly viewed as somehow suspect, undeserved, or undertaxed.

Third, people of faith often are marked by a deep concern for the poor and oppressed. Now the world was full of poor and oppressed people long before the development of the modern market system. Markets have made possible the prospect of the bulk of an economy's population not being poor and oppressed. Paradoxically, it is the very success of the market system that tempts those who believe in a preferential option for the poor also to believe that if the government were to step in, some kind of mopping-up action would take place and we could end all poverty.

To my mind, the sad thing about many churches is that they have abdicated the responsibility to help the poor, and explicitly or implicitly invited the state to take over the role of compassion. One of the most remarkable things I have ever read was by Peter Bauer, the great scholar of economic development who did so much to teach economists how counterproductive government-to-government aid is in helping the poor in other nations. Bauer was asked in an interview what a person who wanted to help the poor in a less developed country should do. His response: Give your money to a missionary working in that country.

RF: Which economists have influenced you the most?

Elzinga: I would have to mention first, Professor Sherrill Cleland, my first undergraduate teacher in economics. He influenced me to major in economics and then pursue a career in college teaching. In one sense, he influenced me the most because he believed I could be an economist at a time when my goal had been to work in the sporting-goods industry. Professor Walter Adams at Michigan State was the graduate mentor who influenced me a great deal. He gave me a passion to study and understand the institution of antitrust. My colleague Bill Breit influenced me enormously at Virginia, not only as a co-author, but as a teacher. Bill never thought that teaching and research had to be mutually exclusive. Finally, Professor Ronald Coase invited me to spend time at the University of Chicago and that also was an important time for me intellectually. **RF**

Kenneth Elzinga

➤ Present Position

Professor of Economics, University of Virginia (1974-Present)

➤ Previous Appointments

Associate Professor of Economics, University of Virginia (1971-1974); Assistant Professor of Economics, University of Virginia (1967-1971); Fellow in Law and Economics, University of Chicago (1974); Special Economic Advisor, Antitrust Division, Department of Justice (1970-1971)

➤ Education

B.A., Kalamazoo College (1963); M.A., Michigan State University (1966); Ph.D., Michigan State University (1967)

➤ Selected Publications

Co-author of three mystery novels: *Murder at the Margin* (1978), *The Fatal Equilibrium* (1985), and *A Deadly Indifference* (1995). Author or co-author of numerous scholarly articles in such publications as the *American Economic Review, Journal of Law & Economics, Supreme Court Economic Review*, and *Public Choice.*


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