



Without competition and market pricing, the consumer loses Pulling out the dents in Bay State auto insurance

When Anne Higgins heard one of those ubiquitous GEICO ads on the radio, she decided to call the company to see if she could get a better rate on her auto insurance. Higgins is the dream client for most insurance companies: she lives in a low-risk neighborhood, has a good driving record and pays her bills in a timely manner. "I just pay the bill once a year, it's cheaper that way," she says.

But much to her dismay, the retired federal employee from North Andover learned that the innovative auto insurance carrier decided long ago not to enter the Massachusetts market. Anne got a lesson in the economics of auto insurance in the Bay State: that government meddling often makes things worse for consumers.

Making the news even more unpleasant for Anne, the insurance commissioner welcomed in the New Year by approving a 2.5% increase in auto rates for 2004. The increase,

which became effective January 1, results in an average increase of \$25.51 per vehicle, giving



Massachusetts the 4th highest average premium in the country at \$1,028.62. (See chart on page 2.)

In Massachusetts there are many distinctions we'd like to live without: high housing costs, high taxes, high fees and high energy costs. But nothing draws the ire of Massachusetts consumers

like high auto insurance premiums. That's because there's little that motorists can do about cutting their auto insurance rates. We can make choices to lower the cost of housing (buy less of it or move to different communities with lower property values and property taxes), avoid high taxes (work less or shop in New Hampshire), and pay less for energy (consume less by turning down the thermostat and by using alternate forms of transportation). But there's nothing we can do when it comes to auto insurance since residents are captive to the Rubik's cube of highly-regulated private insurance companies, busy-body government and the competing interests of insurance agents, auto body shops and so-called consumer advocates.

At the center of the auto insurance mess, (no surprise) is the state government. Massachusetts takes the mantle as the most over-

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Views vary on outsourcing, gambling and smoking ban Survey: Mass. turnaround to lag national recovery

Listen to the nightly news and you'll probably conclude that we live in two worlds at the same time. One is the world of high productivity growth, higher housing values and expanding home ownership rates, low inflation and the Bush tax cuts that have boosted disposable income. Add to this scenario a stock market that finally took off in 2003 across the board: The S&P rose 22%, the DJIA rose 21% and the once disappointing NASDAQ rose a remarkable 45%.

After wandering in the doldrums of a soft recession, the U.S. economy grew last year at the very impressive annual rate of 4%. Most economic forecasting is positive if not overtly bullish, even concerning jobs.

Up against this rosy scenario is the other world of massive layoffs and outsourcing of

good jobs and wages overseas, the federal deficit and the equally-troubling trade deficit. Add to this the high cost of health care and education and voters may find themselves in a foul mood come November.

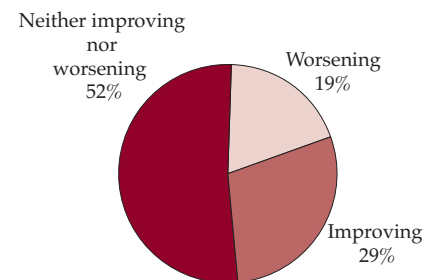
Most observers note that the nation is divided politically. Given the highly political environment of a presidential election year this is no surprise. The economy may be recovering but that apparently isn't good enough. Exit polls from the Wisconsin presidential primary found that three fourths of voters said that trade with other countries destroys jobs in the U.S.

Uncertainty about the economic recovery appears to be influencing local opinion in Massachusetts. Fiscal conservatives, a group more inclined to support the President's policies, and less disposed to the growing drumbeat of pessimism, are voicing some of the same concerns as the general public.

Fifty-six percent (56%) of respondents to the Beacon Hill Institute's State of the Household Survey 2004 believe that the Massachusetts economy will improve, a significant increase from last year's finding. Yet 52% rate their household finances as middling — neither im-

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As you enter the new year, how would you rate your own household finances?



BHI State of the Household Survey 2004

Car Insurance

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regulated auto insurance system in the country. It is the only state where the insurance commissioner has the authority to “fix and establish” the rates for private passenger auto insurance, when the commissioner deems the market “uncompetitive.”

Like the guest who won't leave the party, the commissioner never finds it convenient to declare the market competitive. The last time a commissioner deemed the market to be “competitive” was 30 years ago. But claims of competitiveness are a fig leaf. The rates are never determined by the market; they are made on Beacon Hill after careful consideration of all the players, including the Automobile Insurers Bureau, the State Rating Bureau, the Attorney General's Office, and of course motorists “who want something done about the problem.” The insurance commissioner dictates the maximum rates that insurers may charge drivers, based on certain risk factors, and where the driver lives. And presto! Massachusetts has its very own government mandated auto insurance rate.

“To the outsider, Massachusetts is the nation's best example of an auto insurance regulatory scheme gone mad,” says Brian Sullivan, editor and publisher of *Auto Insurance Report*, an industry newsletter. “Insurers can't set prices to reflect the risks posed by different drivers. They can't even pick their customers. In many cases they can't pick their agents. The state sets the prices – for everyone. It sets agent commissions, too.”

Over the years, the Commonwealth's auto insurance system

has become a morass of bad incentives, and the strict regulation has served as a disincentive for insurers who might otherwise consider entering the insurance market in Massachusetts. By making it difficult to do business in the state, many insurers will, and do, avoid selling policies here. While consumers in other states enjoy the benefits of dealing directly with firms such as GEICO and Progressive, Massachusetts motorists are left with few choices. Motorists in other states have more choices, compared to the 20 choices currently available through agents across the Commonwealth, none of which are the larger national providers.

Throughout the United States, State Farm and Allstate have a market share in the auto insurance field of 19% and 13%, respectively. GEICO, the company with the better TV commercials, is the fifth largest private passenger automobile insurance company, providing in excess of 5.3 million auto policyholders with more than 8.6 billion cars covered throughout the United States. Yet none of these companies competes in Massachusetts because of the arcane regulatory policies supposedly set up to keep the market competitive.

And while it may not be politically correct to say so, auto insurance companies don't make much money. Massachusetts produces a 2.5% net loss for the industry according to Sullivan. When it underwrote (note the past tense) policies in the Bay State, Allstate, for example, lost \$115 million over the last five years of their stay, largely because of the “unique regulatory environment” within the state. This all sounds complicated and inefficient, but the state's big players do find a way to make a satisfactory profit. “Commerce Group Insurance is acting rationally in the market place before it,” says Sullivan. “They're smarter.”

Tight restrictions; no refusals

When fewer companies offer insurance, prices go up, leading to political pressures from motorists who decry the latest premium increase. Public officials move to socialize the risks associated with bad drivers – ostensibly spreading the costs of auto insurance to everyone – including good drivers

from Boston to the Berkshires. This mechanism is known as the “residual market.” In an attempt to alleviate high premiums, Massachusetts operates an elaborate rating system to subsidize the cost of insuring “undesirable drivers.”

Massachusetts law denies the right of insurers to refuse to sell policies to high-risk drivers. That means any customer that walks into an insurance agency must be placed with an insurer no matter what kind of risk that driver poses. These agents have no incentive or ability to turn down problem drivers.

Under the Commonwealth Automobile Reinsurers (CAR) program, which oversees the residual market drivers, insurance for drivers who are considered high risk is subsidized by other drivers through contributions made by companies to a high-risk pool. These insurers shift high risk drivers to a pool. The insurers pass along selected drivers to this program and pay into the CAR program

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Rank	State	Average Combined Premium
1	New Jersey	\$1,146.39
2	District of Columbia	\$1,143.71
3	New York	\$1,091.43
4	Massachusetts	\$1,028.62
5	Rhode Island	\$ 972.01

Ranked by "Average Combined Premium." Average premiums are based on 2000 data (the most recent available).

Source: National Association of Insurance Commissioners. Reproduced with permission.

BHI hosts students on Job Shadow Day

Madison Park Technical Vocational High School students Cledir Barros, Huy Ly and Duyen Nguyen are budding computer networking experts. The nature of their work lends itself to making connections between computer users, hardware and software.

And on Job Shadow Day (January 30, 2004) they were able to make a different kind of connection — one that applied their classroom knowledge to the workings of a busy public policy research office.

The three students from Madison Park shadowed BHI Director of Communications and Information Systems Frank Conte for a half-day to learn about workplaces such as the institute. Hoping to earn their certification in network computer technology when they graduate, the three students helped Conte install printer drivers for a copy machine, salvage an old computer and inspect an array of computer hardware. They tried their hands at editing a web page and learned how BHI

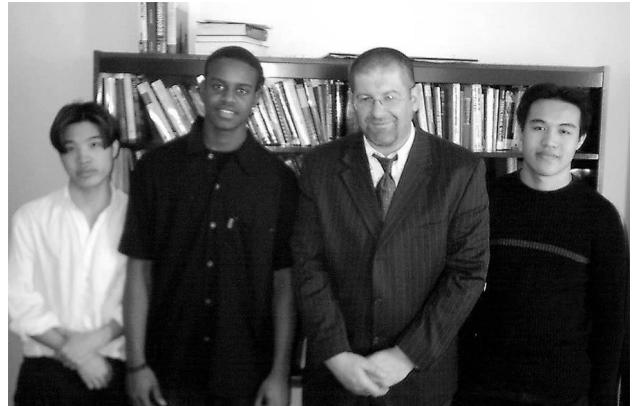
publishes its material. They also learned about communicating with the media and how academic and professionals interact in an active environment.

The students — Barros (Class of 2004), Ly and Nguyen (Class of 2005) — were free to ask questions and discuss their classroom experiences. After the session, the students were treated to a complimentary lunch.

Job Shadow Day began in Boston in 1996 and expanded into a nationwide event that now hosts more than one million students nationwide. BHI has participated in the program since 1999 and has invited students from Brighton High School and Madison Park. This year marked the fifth time BHI has participated.

“As a research institute at a learning institution located in downtown Boston, BHI has been committed not only to sharing its resources with the Boston public schools but also exposing students

to new ideas,” says Conte who expects to continue working with event organizers, the Boston Private Industry Council in the future. “The inner workings here at BHI offer a solid preview of the world of work and the range of career opportunities available in the market after the completion of an education. Cledir, Huy and Duyen now have a clearer understanding of what’s needed to succeed after they leave the classroom setting.”



MAKING A SHADOW CONNECTION — The Beacon Hill Institute recently hosted three students from Madison Park Technical Vocational High School in Roxbury as part of Job Shadow Day: Standing left to right: Duyen Nguyen, Cledir Barros, Frank Conte and Huy Ly.

News on the fly: BHI upgrades portal

Now in its second year, BHI’s *News Portal* is the one-stop location on the Internet for all your economics and business news. Updated each business day, the *BHI News Digest* offers two newsfeeds from around the globe and a digest compiled from the nation’s top news sources.

The *News Portal* also highlights BHI’s Media Mentions’ archives. The archive contains BHI’s most recent media hits from across the country. The *News Portal* is also actively promoted to Suffolk University students majoring in economics. The News Portal is the newest way in which to promote the institute’s mission both in the classroom and to the public at large. Visit it today at <http://www.beaconhill.org/Portal/Newsindex.htm>.



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Car Insurance

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based on their use. The more drivers they shift to CAR, the more they pay into it. In its current form, this high risk pool penalizes insurance carriers for shuttling these very same drivers beyond an assigned quote. But the current insurance firms have found a way not to directly insure high risk drivers. "It is very important to realize this is a zero-sum game," remarks Sullivan. "If one company succeeds in beating the system, carrying a relatively light load, another company must have a comparatively large burden to shoulder."

Massachusetts does not charge these drivers any kind of additional premium for this placement in CAR. Because the premiums charged to drivers in this high-risk pool cannot cover the costs of these drivers, this cost deficit is passed along to safer drivers who must pony up for their less-safe counterparts.

In their study of the Massachusetts rate-setting system, B. Glenn Blackmon Jr. and Richard Zeckhauser of the John F. Kennedy School of Government at Harvard University note that the subsidies are not just between suburban and urban drivers as some believe. Middle-aged drivers subsidize young drivers, and older, experienced drivers subsidize the inexperienced drivers. Women drivers subsidize men and voluntary market drivers subsidize CAR drivers. How extensive are the subsidies? The authors estimated that consumers that were neither in CAR nor in a subsidized territory paid as much as \$427 per year to subsidize riskier motorists.

Within these subsidy processes, state regulators often like to gloss over the realities of local conditions for philosophical reasons. For example, state regulators deliberately force insurers to under-price coverage in urban areas, compelling them to make up their

losses by charging more to drivers in the suburbs or rural areas. To keep rates "affordable" in Roxbury for example,

regulators increase the premiums paid in lower risk communities such as Wrentham. Roxbury has thus emerged as the most subsidized territory in Massachusetts. In 2003, an average policyholder in Roxbury could receive a hidden subsidy of up to \$1,159 to cover the true cost of insuring a vehicle there. To the average policyholder in Wrentham that means an additional \$66 per year. The problem is that the Wrentham motorist has little or no idea that this transfer is taking place.

It is true that urban roads are more congested, less suited for larger vehicles and home to younger drivers. But the price of insurance premiums should reflect the cost

of the higher risks of urban living such as auto theft. (Efforts to prosecute cases of fraud have diminished in recent years despite the state's insurance industry subsidy of a special prosecutor in the Attorney General's office.)

While drivers in Boston probably don't mind this arrangement, it could hardly be considered fair or equitable to the lower-risk suburban drivers. "Once you get away with using the pricing system for social purposes you create distortions and then correct those distortions," Sullivan tells *NewsLink*, "It's a never-ending spiral of tinkering." Discounts are a case in point.

In response to calls for action on behalf of beleaguered consumers, regulators have prodded insurance companies to offer discounts. Heeding this call a few years ago, and in an effort to capture market share as well, most companies aggressively offered safe driver discounts. But lately they've been retreating on this practice. Another discount option, group rates are not available to everyone.

So what do we do? Those who want reform will have to wait for a consumer revolution, the tipping point at which consumers say, "I'm done, I'm not going to put up with this anymore." In New Jersey, which is now moving to a more liberalized price and risk-setting structure, public officials took action only when State Farm Insurance pulled out of the state; a move that threatened to up-end the balance of the entire market. Even in New Jersey, where the lesson of Massachusetts' last impatient foray of a true competitive system was taken into consideration, the Garden State has slowly lifted the veil of the past socialized system to expose the market to open competi-

tion. Unfortunately, change in Massachusetts will only take place when discontent breaks out.

According to industry observers like Sullivan, one way to improve any system would be to remove the "hidden subsidies." Motorists would have a better idea with an honest process that identifies just how much they are paying to cover high-risk drivers in certain territories. The *Boston Globe* recently noted that in 2000 the rate of property damage claims per 100 insured drivers was 6.88 in the Commonwealth, the highest in the United States, for comparison Connecticut was only at 4.37 per 100. That is quite a bit of accidents and risky drivers on Massachusetts roads that are costing

the rest of us some serious money, unbeknownst to us of course.

With or without more clarity in the system, all seemingly good things must come to an end, even special breaks for bad drivers. Soon companies will no longer be able to subsidize Massachusetts through profits earned in other operations in other more competitive states. Increased crackdowns on fraud, discounts for good drivers, or even discounts for MBTA passes are poor substitutes for genuine pricing and risk assessment that's sorely needed.

Markets can't eliminate every unfortunate human experience in car insurance access, affordability, and quality. But new technologies such as the Internet can empower consumers. Unlike centralized and overregulated government "solutions," free markets don't guarantee perfect outcomes, just better ones.

What do you think about the state's auto insurance system? Register your opinion on BHI's Pulse Poll at www.beaconhill.org today!

Motorists in other states have a far wider array of choices when it comes to auto insurance. Motorists here are limited to plans from 20 companies.

Massachusetts Car Insurance (as a percentage of take home pay)	
Federal	22.30%
State and local	5.60%
Total state and federal tax rate	27.90%
Per capita personal income	\$37,704.00
Federal and state tax paid	\$10,519.42
Take home pay	\$27,184.58
Average premium rate in Massachusetts	\$1,028.62
Insurance rate as percentage of take home pay	3.78%

Source: www.MassStats.com and www.taxpolicycenter.org

Survey

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proving nor worsening as they enter the new year. Seventy-three percent (73%) of respondents, believe that the national economy will improve more than the state's economy by nearly 20 percentage points. Only 23% believe that their own economic standing and that of the state is improving.

The survey, conducted each January since 1998, is the only measure of the opinions of fiscal conservatives in Massachusetts, those likely to support free market policies and the candidates who espouse them. More than 450 individuals responded to this year's mail-in survey which has a margin of error of +/- 6 percentage points.

As expected, this sample overwhelmingly believes that both Governor Romney (75%) and President George W. Bush (68%) are performing well in their jobs. This distinct segment of the Massachusetts electorate is also more likely to oppose tax increases (75% want the personal income tax rate returned to 5%); more likely to abolish the state excise tax (61%) and less likely to expand social programs (68% oppose extending unemployment benefits, so-called Baby UI, to new parents). Sixty-seven percent (67%) believe that it will not be necessary to raise taxes in 2004.

However respondents diverted from conventional economic conservatives on several issues.

For example:

- Forty percent (40%) favor limitations on the ability of the Commonwealth to contract with firms that outsource jobs overseas while 50% oppose such measures with 11% undecided. The growing movement of high-tech jobs overseas is now a concern for even free trade supporters.

- Forty-nine percent (49%) oppose the establishment of casino gambling while 41% favor it. Often sold as a source of revenue for cash-strapped governments, casino gambling poses its own problems. Respondents appear to be either concerned about the social consequences of establishing casino gambling in the Bay State or worried about earmarking more revenue to government. By a similar margin, respondents are also opposed to the introduction of slot machines in race tracks, restaurants and hotels.

- Showing a preference for government action over market solutions, respondents also slightly favor a statewide smoking ban

in workplaces (45% to 43%). The Governor said he will consider signing a ban this year.

- Opposition to universal health care has declined slightly. This year, respondents said they would oppose any law mandating universal health care coverage in the Bay State (51% to 42%). Last year the margin was 56% to 37%. Whether economic insecurity accounts for the increase in support of such a vague measure is unclear. But a call for government intervention has some appeal with this segment of voters.

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Beacon Hill Institute State of the Household Survey 2004	Improve	Neither improve nor worsen	Worsen
During 2004 do you expect the global economy to:	50%	39%	11%
During 2004 do you expect the national economy to:	73%	16%	11%
During 2004 do you expect the Massachusetts economy to:	56%	29%	16%
	Support	Neither support nor oppose	Oppose
Enacting a law mandating universal health care coverage.	42%	7%	51%
Extending unemployment benefits to new parents (Baby UI).	18%	13%	68%
Preventing or limiting State from contracting with firms that outsource overseas .	40%	11%	50%
Capping the number of charter schools in the Commonwealth	24%	27%	49%
Abolishing the excise tax on motor vehicles .	61%	13%	27%
Cutting local aid to cities and towns.	18%	17%	66%
Capping damages in medical malpractice jury awards.	82%	5%	14%
Enacting a law requiring computer manufacturers to recycle their products.	57%	24%	18%
Legislation that would control unsolicited e-mail or "spam" .	84%	8%	8%
	Favor	Neither favor nor oppose	Oppose
The redirection of funds to assist the poor from government to nonprofit organizations .	57%	19%	24%
A continuation of education reform spending at its current level.	52%	28%	19%
The establishment of casino gambling .	41%	10%	49%
Allowing race tracks restaurants and hotels slot machines .	34%	13%	52%
More co-pay for Medicaid recipients.	43%	15%	43%
A targeted tax cut for the biotechnology industry.	30%	29%	42%
Relaxing MCAS grad requirement .	19%	11%	70%
A statewide smoking ban .	45%	11%	43%
	Agree	Neither agree nor disagree	Disagree
Gov. Romney has done well in his first year.	75%	9%	16%
It will be necessary to raise taxes in 2004 .	24%	10%	67%
Cut state PIT to 5% by end of Romney's 1st term.	75%	8%	16%
States, cities and towns free to buy drugs from Canada .	73%	8%	19%
State tax incentives for manufacturing .	74%	9%	17%
Limiting ability of elderly to shift assets for Medicaid .	42%	12%	46%
	Improving	Neither improving nor worsening	Worsening
As you enter the new year how would you rate your own household finances this year?	29%	52%	19%
	Agree	Neither agree nor disagree	Disagree
Agree or disagree: MBTA had no choice but to raise public transit fares .	40%	26%	43%
	Good	Neither good nor bad	Poor
How do you rate President George W. Bush?	68%	9%	23%

*Numbers may not add to 100 due to rounding

Survey 2004

continued from page 5

Survey respondents tend to support the popular view on the ability of consumers to purchase drugs from Canada. Seventy-three percent (73%) believe that states, cities and towns should be free to purchase cheaper drugs from Canada.

On others matters of state tax policy, voters are oddly selective. While strongly opposing targeted tax cuts for the biotech industry (42% to 30% with 29% voicing no opinion), an overwhelming majority of respondents show a willingness to provide tax incentives for manufacturing (74% to 17%). Twenty-six percent (26%) support both tax incentives. These choices are demonstrably favorable to "old economy" manufacturing and unfavorable to "new economy" biotech. Only 12 percent opposed both.

Respondents were also of mixed mind when considering the state's Medicaid system. Forty-two percent (42%) agree that the Commonwealth should limit the ability of elderly citizens to shift assets in

order to qualify for publicly assisted nursing home care; 46% opposed the idea while only 12% voiced no opinion. Such a division may make it difficult to tackle the state's nursing home crisis or encourage planning for the private provision of long term care for the elderly.

Meanwhile, 43% opposed asking Medicaid recipients to pay more out-of-pocket co-payments, while the same number favored the idea and 15% voiced no preference. The Romney administration has argued that curbing the growth of the state budget requires some form of co-payment by Medicaid recipients. Spending on Medicaid comprises 30% of total state spending in 2004 and shows no sign of abating in the next few years.

Is local government better?

As with previous surveys, respondents demonstrated support for local government even though they favored abolishing a source of revenue to localities, the excise tax. Sixty-six percent (66%) opposed cutting local aid to cities and towns only

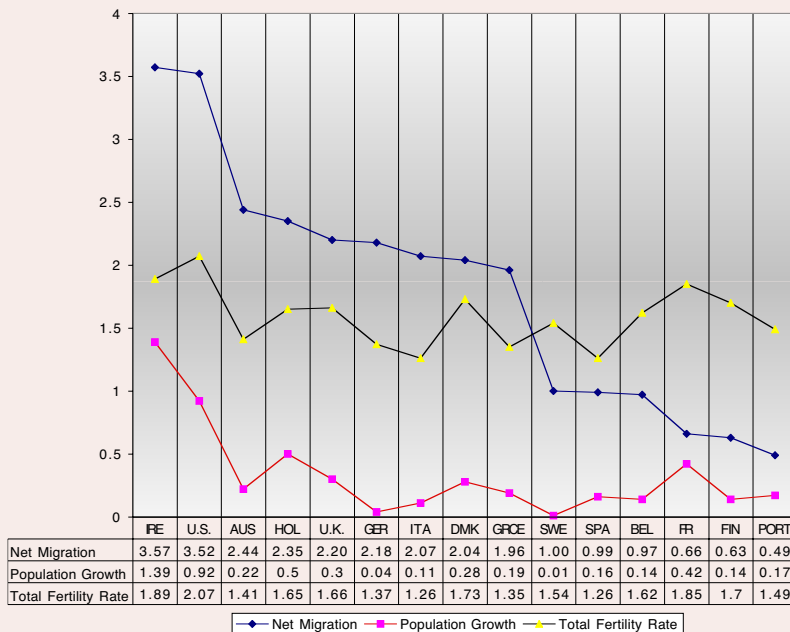
18% favored the measure with 17% holding no opinion. Meanwhile, 44% of respondents who expressed confidence in Governor Romney's performance also opposed cutting state aid to local cities and towns.

Respondents continued to express support for charter schools and the Education Reform Act of 1993. Fifty-two percent (52%) favor a continuation of Ed Reform spending at current levels with only 19% opposed and 28% voicing no opinion. Despite arguments about the fiscal constraints they place on state and local funding, charter schools continue to enjoy support: 66% oppose any measure that would cap the number of such schools.

Respondents were also asked whether they agree or disagree with the following statement: *The MBTA had no choice but to raise public transit fares?* Forty percent (40%) agree, 33% disagree while 26% expressed no opinion.

Coming and going, three population tales

A Look at Net Migration, Population Growth and Total Fertility Rates
European Union and US
Source: CIA World Fact Book 2003



The United States admitted more than 1 million legal immigrants annually during 2001 and 2002, a 25 percent increase over 2000. The European Union also attracts a sizeable number of immigrants. Immigration has continued, and in some cases even increased, despite a national recession (U.S) and persistently high unemployment in several of the host nations (E.U.).

Continued vigorous immigration, welcome or not, shows no sign of abating given that integrated economies depend on the kind of flexible labor forces that immigration provides. Nations with high net immigration rates such as the U.S., Ireland (in recent years) and the United Kingdom have been able to absorb more immigrants while growing their economies. Every year the U.S. accepts over 3,500 immigrants per million inhabitants. The comparable rate for France is below 700.

In every country in Western Europe, the fertility rate is below the replacement level of 2.1 children per woman. Without immigration, the population of these countries will begin to shrink in the foreseeable future. Immigration holds out the prospect of allowing countries to maintain their populations and ensure continued economic stability. Italy has one of the lowest fertility rates in the world and a pension system in trouble but it may be able to depend more on immigration to replace older workers and fund its social welfare obligations. The U.S. growth in population, along with immigration, can replace the population needed to meet the demands for labor and sustain social security in its current form.

For a variety of economic and cultural reasons, liberal immigration policies are controversial. Nonetheless, immigration into richer nations will continue because of the demand for unskilled labor and the need to fund social security systems. And as long as wages and job opportunities are much better in rich than poor countries, there will be a powerful incentive for people from poor countries to try to move to the lands of opportunity.

Choice anxiety, abundance denial and other comforts of the modern age


Bookmark

The Progress Paradox: How Life Gets Better While People Feel Worse

Gregg Easterbrook, Random House, 2003, 377 pages.

Reviewed by Frank Conte

It was the great columnist, the sage of Baltimore, H.L. Mencken, who wrote “the whole aim of practical politics is to keep the populace alarmed (and hence clamorous to be led to safety) by menacing it with an endless series of hobgoblins, all of them imaginary.” While Mencken’s searing wit skews to hyperbole, his insight has proved timeless. Uncertainty about the economic future and the fear of change is one of the dubious rationales for the aggrandizement of State power. The consequences have been severe to say the least.

One could easily modify Mencken’s insight by adding those nattering nabobs of negativism who dominate the media thereby adding fuel to the fiery notion, from both Left and Right, that the world is going to hell in hand-basket – one probably woven in a sweatshop in some god-forsaken part of the world. To be sure there are real threats to Western civilization, post September 11. These are not imaginary and serve as a grave summoning to a re-ordering of public life in America. But that is not the whole story, in fact the bad news has overextended its stay — crowding out the steady but silent march of civilization.

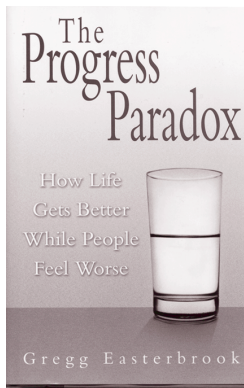
Gregg Easterbrook has made it his job to chronicle this glorious march and along the way he’s found the gumption to disregard the endless pixel-driven, high-decibel hobgoblins of the nightly news. Easterbrook is a man with much-needed perspective. That he may whistle Louis Armstrong’s “What a Wonderful World” on his way to work would not be a surprise.

Notwithstanding the horrors of war and famine (which in the rearview mirror of history are calamities that often could be avoided), life is getting better for the average person. A gifted magazine writer, Easterbrook, is courageous enough to tread the borders of heresy in his new book, *The Paradox of Progress*. Not since the late Julian Simon has an optimist surged onto the public stage with such brilliance. To the war of light and darkness, Easterbrook comes armed with facts to tell the great story of our era.

• In 1956, for example, the typical American had to work 16 weeks for each 100 square feet of home purchased; today, 100 square feet of

new home costs the typical person 14 weeks of work. Overcrowding is down to three percent; houses without plumbing are less than one percent for the first time in history. Today, almost 70% of Americans own their homes compared to 20% a century ago.

• Inflation adjusted per-capita American income has more than doubled since 1960 meaning that the typical person now commands twice the buying power of his father or mother in the year 1960. The 50% real dollar gain for average households comes during a period of open immigration, no small feat. During the 1950s, a cheeseburger at McDonald’s cost the typical person half an hour of wages; now the typical American can buy a McDonald’s cheeseburger for the price of three minutes of wages.



• According to the most recent U.S. Census data, almost 23% of households today have an income of at least \$75,000, which “equates to some 63 million people – more than the U.S. population in 1890 – existing at the material standard of the upper middle class.”

• The U.S. is on the “short path to becoming the first society in history with more adults who are college graduates than are not.”

• Today, Americans own both land and stock, an accrual of wealth unimagined by their grandparents. U.S. families hold about \$12 trillion in equities, a figure representing more than a year’s GDP for the U.S.

• Cancer, once a death sentence, is treatable with miraculous drugs and other therapies. Cancer mortality has been declining at the annual rate of about one percent since 1993.

• Despite a slight recent increase, crime overall is down and so is gun use. It would have been difficult to imagine that in 2002 the murder rate in New York City would be less than in most rural states. The distorting lenses of Hollywood and the media create other impressions. In 1981 the quintessential actor Paul Newman made the movie *Fort Apache: The Bronx* a depressing tale of one the most ruthless crime-ridden corners of the globe. Today the 42nd precinct, upon which the movie was based, has so thoroughly triumphed over crime that police officers now take up their time with community outreach programs. A sequel to *Ft. Apache* and its success escapes the limited blood and guts storyboards of Hollywood films.

Easterbrook’s inventory of well-being doesn’t stop. Reduced mortality rates, longevity thanks to advances in medicine, less air pollution, the ability to fly anywhere at a moment’s notice, the ability to call

anyone anywhere for a fraction of the cost of long distance rates once only affordable to the upper classes are all examples of the average person enjoying a higher standard of living. The fact that the typical person today has the economic means to pay someone else to prepare his or her meals is an astounding economic development.

Virtually no other issue embodies the culture of complaint as does the cost of prescription drugs. While seniors spend more on alcohol, tobacco, and entertainment than prescription drugs, few admit the benefits they bestow. “One reason so many American senior citizens are upset about the costs of drugs is that those drugs have kept them alive long enough so that they need more drugs.” In fact, as Easterbrook points out, most of the increase in health care spending “stems not from the prices of medical goods and services but increased utilization.” This is a good sign in so far that high-tech medicine should be available to everyone. This makes people, even the poor, better off. But of course the bad news drives out the good.

One of the most compelling arguments in the book tackles the issue of growing inequality. Easterbrook is clearly prepared to meet the egalitarian challenge. Social democrats have long sought to make growing inequality the United States a wedge issue, hoping that concerns about income disparities will engender a revolt of the masses. Has inequality expanded significantly?

Not really, replies Easterbrook, if one takes a closer look at the numbers.

The slow growth in median incomes coincides with the second great wave of immigration, still underway. From 1979 to 1999, notes Easterbrook, five million immigrant households below the poverty line were added to the U.S. However the number of native born Americans living in poverty has actually declined. “Factor out immigration and the rise in American inequality disappears; median income trends (particularly among African-Americans) become quite healthy.”

About 11% of the U.S. population is foreign born. This is America at its best not its worst. Immigration can be a great revitalizing force and this is certainly no indictment. But to close the “inequality gap” would require highly restrictive immigration policies which no one

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In Point of Fact

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here's a market for everything! Will this work for MCAS?

A school in China is allowing students who don't do well in tests to borrow a few extra marks as long as they pay them back with interest. Students who do poorly on a test can ask their teachers to lend them a few points to improve their grade, but twice as many points must be paid back on the next test, assuming they achieve a better mark. If they don't, interest on the loan continues to run at 100% per test until it is paid off. It is reported that about 40% of students at the school have taken out such loans.

Annanova.com, "Teachers offer to 'lend' students marks to pass tests," February 2, 2004.

Why rent when you can own? Part 1

Renting an apartment in much of the country these days can feel a little like waking up on your birthday. Waiting for the tenants in some building lobbies every morning are free cups of Starbucks coffee. In the Atlanta suburbs, people who move into one garden-style apartment building receive \$500 gift certificates to Best Buy, the electronics chain. In Cleveland, Denver and many other cities landlords have been giving new tenants gifts worth \$1,000 or more: one, two or even three

months of rent-free living. While rents have continued to rise in many big cities on the coasts, including New York and Los Angeles, they are falling in more than 80 percent of metropolitan areas across the country. Low interest rates in recent years have persuaded many families to move out of rented apartments and buy their first homes at the same time that developers have been putting up thousands of new rental buildings, leaving many landlords desperate to fill apartment.

"Apartment glut forces owners to cut rents in much of U.S.," David Leonhardt, *New York Times*, November 29, 2003.

Why rent when you can own? Part 2

With so many consumers snapping up DVDs to own, home video rental stores saw a decline in 2003, with rental revenue down by 1.5 percent industry-wide, according to trade journals. VHS rentals plunged by 29.8 percent last year, but nearly making up for the drop were rentals of DVDs, which were up by 52.1 percent. Heavy DVD buying is thought to be largely responsible for Hollywood Entertainment's rentals being off by 9 percent from 2003 during the last two weeks of December.

"DVD sales soar, home video rentals fall," Greg Hernandez, *Los Angeles Daily News*, January 10, 2004.

Why are you not surprised at Clear Skies?

A new study from the National Research Council,

a division of the National Academy of Sciences, finds that while air pollution is declining, the reduction could be accelerated by a "multi-state, multi-pollutant" approach that allows industrial facilities to trade reduction permits with each other. (Current Clean Air Act rules generally require cumbersome site-by-site, pollutant-by-pollutant litigation.) It's, um, a scientific study, and so perhaps the *New York Times* might have been forgiven for reporting it in a short article on page A11, while the *Washington Post* might have been forgiven for giving the study only three paragraphs. Here's what was missing from the coverage. The "multi-state, multi-pollutant" approach just endorsed by the National Academy of Sciences is exactly what the Bush administration has proposed to adopt under its Clear Skies initiative. The ill-named Clear Skies plan would replace the Clean Air Act's cumbersome site-by-site litigation formula with a new system that sets broad overall reduction targets, then allows industrial facilities to trade reduction permits with each other. The Clear Skies plan has been mocked by editorial writers. Comes now the National Academy of Sciences to say the Clear Skies approach is desirable, and the big papers bury that inconvenient development. "Pollution Coverage," Gregg Easterbrook, *The New Republic Online*, February 2, 2004.



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could rationally support, not even labor unions. "Unless you favor the closing of the borders, don't complain that the top is pulling away from the middle in income terms."

The noble story about immigration is worth telling. In absence of direct foreign aid to developing nations, the U.S. through its immigration policy, the most liberal in the world, offers more than a fleeting hope to millions escaping poverty. For each of the last 20 years, the U.S. has welcomed and absorbed a million legal immigrants a year – more than all other nations combined.

This sunny side of life does little to lighten the heavy minds of self-absorbed Western intellectuals, a class sustained by a steady stream of ponderous gloomy commentary. The angst that has been fodder for the chattering classes is made possible paradoxically because of economic growth. As material goods have become cheaper, available and abundant and their marginal value has diminished, they are no longer life-long pursuits but rather goods readily attainable for consumption today. This allows us to make other choices. Since the demand for basic needs are fulfilled, we now move on to make other choices such as demands for cleaner air or other "quality of life" goods and, even as Easterbrook portends, a demand for making the world a better place. The obsession of the

protean self with the crisis of capitalism and other leisure pursuits obscures the fact that we ought to be grateful for our economic way of life. Easterbrook does well to quote Adam Smith to whom he turns for a lesson on gratitude. The father of free trade and the author of *Theory of Moral Sentiments* believed that people who were ungrateful were only cheating themselves out of happiness in life.

In the end, the rest of the world would love to make the kind of agonizing choices before us every day.



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